The University of Chicago

VOLUNTARY CONTROL IN THE ADVERTISING INDUSTRY

A PART OF A DISSERTATION SUBMITTED TO THE FACULTY OF THE DIVISION OF THE SOCIAL SCIENCES IN CANDIDACY FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF SOCIOLOGY
1942

By
EDWARD JACKSON BAUR

CHICAGO, ILLINOIS
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CHAPTER I

INTRODUCTION

During the past century the advertising business in the United States has grown from a simple trade to a highly complex industry.[1] National advertising involves the participation of three types of business enterprises: concerns that advertise, media in which advertisements appear, and agents who prepare the advertisements and handle all transactions between advertisers and media. The transactions between them, through which the work is divided and gains distributed, are carried out in accordance with established trade practices. The most important of these practices are implemented by formal trade organizations which have been established since about 1910. The effect of these trade practices is to control competition, so that the distribution of gains and losses is determined not only by individual ingenuity but also by rules and sanctions.

The problem of this study is to formulate hypotheses as a step toward explaining how and why a complex system of trade organizations becomes established for controlling the transactions of enterprises in a highly competitive industry. By taking the view that formal organizations are persons acting collectively, the basic question is: Under what conditions is competition through individual enterprise supplemented by voluntary control

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[1]This research was not carried beyond the middle 1920's when the essential features of trade organization in the advertising industry had become established. For this reason the past tense is used in most statements of fact about the advertising industry.

through collective action?

It was found that a clear distinction can be made between an earlier period in the history of the advertising industry which was characterized by competition among the participants, and a later period in which competition was controlled through the instrumentality of trade organizations. The first of the three parts into which this dissertation is divided deals with the origin of the advertising industry and with the evolution of its participants during the early period from the 1840's to about 1910. During this interval publishers, national advertisers, and advertising agencies attained their modern forms. Out of competition in which the advantage went to the more resourceful entrepreneurs new techniques and business methods became established. Individual ingenuity and adequate capital were the primary factors which enabled innovators to inaugurate new methods and enabled others to take them up. Those who lacked these capacities dropped out in the competitive struggle.

Part II of the dissertation describes the development and functions of trade organizations in the advertising industry. As early as the seventies, some advertising men had discussed the desirability of restricting the exercise of ingenuity in certain directions through formal agreements on trade practices. However, the proponents of these measures had little success until after 1910. The first step toward collective action came with the formation of advertising clubs which were simple discussion and convivial groups primarily interested in "boosting" the occupation of advertising. More effective as instruments of collective action were the trade associations which limited their memberships to similar concerns engaged in one of the subdivisions of the industry, who therefore had interests and problems in common that were fre-

quently opposed by, or a matter of indifference to, members of other branches of the industry. The trade bureau also appeared which made it possible for the different kinds of participants in the industry to collaborate in dealing with specific problems in which all were concerned.

These different trade organizations originated out of needs for dealing collectively with problems that resisted the efforts of individual participants. Of the many problems that were dealt with by groups of entrepreneurs concerned with national advertising, four were found to be of special importance to the industry. It was in meeting these problems that the trade organizations developed and became essential to the functioning of the industry.

These four major problems of the advertising industry are analyzed in the third part of the dissertation. Specifically they are: (1) the status of advertising men in the business community, (2) resistance to advertising on the part of consumers, retailers, and some manufacturers, (3) the methods and amounts of agency compensation, and (4) the need for accurate data concerning the circulations of media. Only the last of these will be presented here. It is followed by a final chapter which presents the conclusions of this study of voluntary control in industry

CHAPTER XIV

SPACE AS A COMMODITY: THE PROBLEM OF CIRCULATION DATA

After business men began to advertise their products on a national scale they bought space in periodicals but lacked adequate knowledge of circulations to judge their worth for advertising purposes. At first advertisers simply wanted to know how many people read the paper. Later they also needed to know where these readers lived and what kind of people they were. The problem became more pressing as the number of advertisers became more numerous and the methods of preparing advertisements improved. By the late nineties advertisers recognized that they could not solve the problem individually and that some kind of co-operative enterprise would be necessary. However, it was not until after 1914 that the basic problem was adequately met by the establishment of the Audit Bureau of Circulations (ABC). Secondary problems continued to arise which were more or less adequately dealt with through the machinery of the ABC.

In many commercial transactions the buyer is faced with the problem of evaluating the product or service which he needs to purchase. He wants to know what it is worth. To the extent that there are obstacles to complete knowledge about the desired goods the buyer faces a problem. In the advertising industry this problem was faced by the advertiser or agent when he purchased space in publications or other media. However, the problem was not only the buyer's, but also the seller's, in deciding what information he could afford to reveal so that the transaction would

be completed at a maximum profit to himself. The publisher had to decide what he could disclose about the distribution of his periodical and still sell its space at a profit. Thus the parties to the transaction faced the problem of obtaining or supplying sufficient information about the commodity so that each would satisfy his need for making the exchange.

Definitions of the Problem

Although the problem of circulation concerned all three participants in the advertising industry--advertiser, publisher, and agent--it was not the same problem to all of them. For the advertisers it was essentially a problem of insufficient information and the solution lay in more and better circulation data. Among publishers there was the opinion of the large publishers, at one extreme, who usually shared the view of the advertisers because they could then prove their superiority as media. At the other extreme were the small publishers who opposed giving further information because they might lose business if their actual circulations were known.

The agents were divided in their views between the larger concerns that were developing service features who favored impartial circulation audits, and the smaller concerns who made their money from speculating in space. The emerging service agencies looked for increasing profits from more and bigger advertisers and therefore wanted to see advertising become as profitable a marketing device as possible. The broker type of agent, on the other hand, made his money through bargaining and the exploitation of ignorance which would disappear if complete circulation data were easily available.

Advertisers saw the problem, not only as a need for information, but also as protection against fraud. It was frequently

asserted that certain agents and publishers existed simply because they were able to exploit the advertiser's insufficient knowledge of circulations. These critics charged that unscrupulous agents misrepresented the value of some magazines and foisted them on the advertiser because the publishers granted the agents a larger share of the advertiser's bill.[1] In some cases these magazines had large circulations because they sold at little if any cost to the reader.[2] Farm papers were specifically accused of widespread forcing of circulations by the use of premiums and other devices. One writer declared that four or five different papers were received by the average Illinois farm family that subscribed to at least one farm paper.[3]

By the nineties the problem had become acute as a result of increasing competition among publishers and the higher costs of advertising. Rivalry for the patronage of advertisers forced the majority of publishers to become "circulation liars."[4] In 1911 one publisher claimed that "the average circulation statement was from 10 to 25 per cent out of line."[5] The introduction of aggressive methods of selling space and the consequent inflation of circulations became widespread after the seventies. This was the result on the one hand of increasing dependence on revenue from advertisements, and on the other, from decreasing unit costs which together made it possible virtually to give copies away and still make money.

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[1] Advertising and Selling, November, 1909, pp. 781-88.

[2] Ibid., December, 1910, pp. 80-81.

[3] Ibid., April, 1914, p. 20.

[4] Frank Munsey, "Advertising in Some of Its Phases," Munsey's Magazine, November, 1898, p. 485.

[5] Frank Presbrey, History and Development of Advertising (Garden City: Doubleday, Doran, 1929), p. 549.

As competition among advertisers increased, the costs of advertising also rose and it became more and more necessary for business men to know what they were getting for their money. As greater numbers of business men turned to the use of advertising as a technique for increasing their sales they found competitors doing the same thing and the fact of advertising in itself was no longer an advantage. The advertising now had to be more appealing than that of business rivals. To make it more effective the costs were greatly increased--individual advertisements were larger, insertions more frequent, new media added, and specialists employed to prepare copy and illustrations.

Unsuccessful Attempts to Solve the Circulation Problem

Since the time when the circulation problem first appeared various attempts at solution were made. In the early period, prior to the late nineties, all attempts were in the form of individual actions. Separate entrepreneurs tried to solve the problem individually. Later, groups of business men tried to meet their needs through collaboration. The federal government also imposed regulations which affected circulation methods and policies. The various forms of action within the industry, whether individual or collective, were initiated, at one time or another, by members of each of the three major divisions of the industry--agents, publishers, and advertisers.

Attempted Solutions through Individual Enterprise

Exhortation.--The actions of individual persons or concerns to secure accurate circulation data took a wide variety of forms. The earliest, simplest, and most persistent, but probably the least effective procedure was the public expression of individual opinions. At conventions and in trade journal articles the prev-

alence of dishonesty in circulation statements was frequently deplored. Advertisers were especially vocal in their opinions of "circulation liars." Some publishers admitted the deplorable state of affairs, issued dire warnings, and urged advertisers to demand detailed information.[1]

Individual investigations.--Agents and advertisers often resorted to their own devices in estimating the circulation of a periodical. Early agents arrived at estimates by inquiring among rival publishers and by checking the publisher's claim against population data with an allowance for competition.[2] Some advertisers made private investigations which involved the examination of the publishers' records when this was permitted. But this was an arduous and costly method which could only be used when it was necessary to make a choice of great importance.[3] In less important instances the advertiser or agent relied on information obtained from the publisher by letter or through a questionnaire.[4]

Publishers' own statements.--To meet this demand for information a great many publishers issued sworn statements, but this data was not always reliable, for, as a leading publisher said, "In circulation matters we have two kinds of lying--plain and affidavit lying, and sometimes it is hard to distinguish between /them/ . . . ."[5]

Advertisers beginning in 1907 began to take an increasing interest in "learning other facts about circulation--the character

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[1]Associated Advertising Clubs of America, Proceedings of the Annual Convention, 1912, pp. 160-64, 194, 214.

[2]Presbrey, p. 269.

[3]Audit Bureau of Circulations, Proceedings of the Annual Convention, 1930, p. 27.

[4]Printers' Ink, June 11, 1914, p. 43.

[5]Advertising and Selling, June, 1913, p. 38.

of methods used in securing subscriptions, geographical distribution, percentage of newsstand and subscription circulation and other figures which might give insight into the character and quality of the circulation."[1] Some publishers publicized various data of this kind and issued certified affidavits of circulation, but it was of little use to advertisers because the material was selected in such a way as to give the most favorable possible impression of the particular publication. Thus the problem of circulation data became more complex with the need for a variety of data presented in uniform categories for easy comparison.

Publication of directories.--Agents, and later the publishers of advertising trade journals, sought to exploit the need for circulation data by compiling directories. The first of these publications was Rowell's American Newspaper Directory which appeared in 1869. It turned out to be a profitable venture, for it not only sold at ten dollars a copy but also brought in revenue from the advertisements of publishers which it carried.[2] There were fourteen agencies issuing annual catalogues by 1890.

In 1878 Rowell tried to improve the accuracy of this data by asking publishers to submit signed statements for which they received a certificate and a star in the catalogue. To minimize the temptation to make a dishonest statement the publisher was required to make a deposit of one hundred dollars which might be forfeited and paid to anyone who could disprove the accuracy of his circulation statement. In twenty-nine instances this was actually done. In spite of the ingenuity of this scheme the majority

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[1]P. H. Erbes, Jr., Printers' Ink: Fifty Years, 1888-1938, Section II, Printers' Ink, July 28, 1938, p. 264; cf. Associated Advertising Clubs of America, Proceedings, 1911, p. 118.

[2]George P. Rowell, Forty Years an Advertising Agent (New York: Printers' Ink Publishing Company, 1906), p. 161.

of publishers refused to prepare signed reports and most of the circulation data represented Rowell's estimates.[1]

After Rowell's agency was dissolved the directory was purchased by the agency of N. W. Ayer and Son. In 1910 the new owners arranged an auditing service by which a publisher who paid the cost of an audit could have his circulation certified in the directory. But only a limited number participated in this plan.[2]

Advertising and Selling, a journal for advertising men, published annual directories of agricultural and trade papers in the regular numbers of the magazine. Along with information about rates and the physical make-up of the magazine they printed total circulations and breakdowns by the methods of obtaining circulation and by regional distribution. Printers' Ink, in a special section, published advertisements of newspapers whose circulations were guaranteed by the journal. The number of such advertisements dwindled when better sources became available until the section was discontinued in 1916.

Legal sanctions.--A final method by which the advertiser might have protected himself and perhaps discouraged publishers from exaggerating their circulation statements was through bringing suit to recover the extra charge. However, this method was rarely followed, probably because of the expense involved, the difficulty of defining circulation, and the prevalent judicial attitude of caveat emptor. The Cream of Wheat Company, whose president was a leader in the circulation audit movement, brought suit against the publisher of Pearson's Magazine in September, 1911, to

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[1]Printers' Ink, April 1, 1914, p. 105.

[2]Ralph M. Hower, The History of an Advertising Agency: N. W. Ayer & Son at Work, 1869-1939 (Cambridge: Harvard University Press, 1939), p. 434; Earhest Elmo Calkins, The Business of Advertising (New York: D. Appleton & Company, 1920), p. 27.

recover rebates allegedly due on account of shortages in circulation.[1] A similar suit which was brought against the publisher of American Motherhood was lost because the court decided that "paid circulation" included "payment promised" as well as "paid in advance."[2]

Government Control

The Bourne Newspaper Publicity law, which was passed by Congress in 1912, contained two provisions which had important effects on the circulation problem: (1) daily newspapers were required to publish sworn statements semi-annually of the average daily circulation during the preceding two months,[3] and (2) the cost of an article of merchandise given as a premium with a subscription could not cost the publisher more than one-half of the value of the subscription.[4] The sanction for these rules was the denial of the right to use the mails for distributing copies.[5]

When this law came before Congress for passage it was bitterly opposed by the majority of newspaper publishers while advertisers looked upon it as a godsend.[6] However, after the law was put into effect advertisers and their agents found that it was highly unsatisfactory. The restriction on the value of premiums was too liberal because their retail value might be greater than the cost of the subscription.[7] The requirement for publishing the

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[1] Printers' Ink, January 4, 1912, p. 44.

[2] Ibid., April 1, 1915, p. 45.

[3] Willard Grosvenor Bleyer, Main Currents in the History of American Journalism (Boston: Houghton Mifflin Co., 1927), p. 419.

[4] Advertising and Selling, April, 1914, p. 49.

[5] James Melvin Lee, History of American Journalism (Boston: Houghton Mifflin Co., 1923), pp. 396-97.

[6] Ibid.

[7] Advertising and Selling, April, 1914, p. 49.

average circulation was defective in several respects. In the first place it was limited to daily newspapers and made no provisions for other periodicals. The act did not clearly define circulation and left publishers free to give the average number of copies printed, while advertisers were increasingly recognizing the need for having the "net paid circulation."[1] It was also charged that publishers did not hesitate to inflate their statements so long as the Post Office made no effort to verify their statements or threaten to withdraw their mailing privileges.[2] Space buyers also complained of the difficulties of collecting circulation figures from the published statements. The publisher could "bury" his statement and was permitted a week or more leeway so that it was often necessary to consult from six to ten issues of a newspaper in order to locate the statement.[3] Although the Post Office Department collected publishers' statements they did not make the information public and refused to respond to requests for data on more than one or two papers because of a limited clerical force.[4] Agents having "connections" in Washington were equally unsuccessful in obtaining information.[5]

Attempted Solutions through Collective Action

Publishers' promotional syndicates.--Collective attempts to solve the circulation problem were made by groups of publishers and by groups of advertisers. Groups of publishers formed promotional syndicates for soliciting advertisers. At least three of

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[1] Printers' Ink, January 8, 1914, p. 44.

[2] Ibid., December 24, 1914, p. 52.

[3] Ibid., February 10, 1916, p. 12.

[4] Ibid., April 4, 1914, p. 52.

[5] Ibid., February 10, 1916, p. 10.

these syndicates were formed among daily newspapers between 1910 and 1913. Others were formed among country papers and weeklies. As an extra inducement to use the papers in the group one of the organizations of dailies guaranteed the circulation statements of its members.[1] The advertising of those syndicates whose members' circulations were nothing to boast about, emphasized the "quality" of their circulations.[2]

Advertisers' associations.--During the late nineties there was frequent talk among leading advertisers and publishers of the need for some method of collecting and publishing circulation data.[3] Out of this discussion emerged two organizations in 1899--the American Advertisers' Association (AAA) in New York, and a western group called the American Society of National Advertising.[4] Shortly thereafter the latter organization merged with the former. The president of the AAA stated in 1911 that it was formed on the assumption "that when we buy advertising we have the self-evident right to know what we are getting and how much we are getting for our money."[5] He went on to say that this was accomplished by finding out how many copies were printed and sold "and the sort of people they are sold to . . . ."[6]

The organization struggled against resistance from publishers and apathy among advertisers until it was finally dissolved after fifteen years of effort. Few publishers would permit an

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[1] Ibid., October 24, 1912, p. 80.

[2] Audit Bureau of Circulations, Proceedings, 1940, p. 14.

[3] Munsey, p. 485.

[4] Erbes, pp. 137, 140.

[5] Associated Advertising Clubs of America, Proceedings, 1911, pp. 26-27.

[6] Ibid.

audit to be made.[1] Only the larger publications that did not fear competition made no objection.[2] This left unaudited the publications about which advertisers were most in need of information.[3]

The second obstacle was the difficulty of recruiting members.[4] The first meeting in 1899 which led to the founding of the AAA was attended by thirty advertisers.[5] By 1911 it had attained a maximum membership of sixty,[6] but its numbers declined to about forty in 1914.[7] The small membership was in large measure due to the high membership fees which were necessary to cover the major share of the costs of carrying out the audits. The decline of membership was partly due to the spread of the belief that publishers ought to bear the entire cost.

A third source of weakness in the AAA lay in the audits themselves. They were not made at regular intervals, either for lack of funds or because publishers preferred some later date.

> . . . . only a comparatively few publishers permitted the investigators to examine their bookkeeping continuously, and many were very careful to prevent anything like an accurate audit of circulation figures.
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> . . . . .
>
> Another great drawback was the fact that there was no standardization of publishers' bookkeeping or of audit methods . . . .[8]

As a result of declining membership, increasing costs per member,

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[1]Presbrey, p. 550.

[2]Cf. Associated Advertising Clubs of America, Proceedings, 1911, pp. 23-24.

[3]Ibid., p. 108.

[4]Erbes, p. 262.

[5]Ibid., p. 137.

[6]Associated Advertising Clubs of America, Proceedings, 1911, p. 26.

[7]Presbrey, p. 544.

[8]Scientific Space Selection (Chicago: Audit Bureau of Circulations, 1937), p. 54.

and unsatisfactory audits, the AAA disbanded early in 1914.

Establishment of the Audit Bureau of Circulations

The basic obstacle to reliable circulation data was finally overcome in 1914 through the collaboration of advertisers, agents, and publishers. The movement for an audit bureau was not immediately accepted by all advertisers and publishers, but by the end of 1915 opposition disappeared.[1] This did not bring an end to all problems connected with circulation. Among the important secondary problems were the need for revising the forms on which circulation data were issued, control over evasion of accurate audits, and the use by publishers of audited data in their own advertising.

Resistance of Publishers

The movement for circulation audits which appeared in 1913 and gained establishment by 1916 encountered resistance from many publishers, both individually and through their associations. The initiative in the new audit movements came originally from advertisers and agents. Unlike the earlier movement among advertisers for circulation audits, both of the movements which appeared in 1913 recognized the necessity of enlisting the collaboration of publishers. The response of the publishers was highly variable; a few joined immediately, others procrastinated, many deliberately withheld their support, and a few sought to weaken the audit movement. None were bold enough to publicly attack the highly moral purpose of the movement in seeking to eliminate dishonesty in circulation statements. Those who did not favor the proposed changes contented themselves with non-co-operation and encouragement of factionalism within the audit movement. Their efforts merely

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[1]Supra, chap. ix. (Chapter ix is not included in this reproduction of the "essential portion". The complete dissertation is in the University of Chicago Library.)

served to delay the establishment of the ABC.

Tactics of the eastern movement.--The two audit movements of 1913 adopted different tactics in dealing with the publishers and consequently faced different kinds of problems. When the Bureau of Verified Circulations was founded in New York City under the leadership of the Association of National Advertising Managers (ANAM) they asked the important trade associations of publishers to send delegates to a preliminary meeting. They failed to get enthusiastic co-operation from these associations.

The president of the ANAM invited twelve trade associations to send representatives to a conference in the spring of 1913 where plans were laid for auditing circulations. At the initial meeting in April, all but the Periodical Publishers' Association sent the requested three delegates. A subcommittee formulated a plan of organization which was adopted at conventions of these associations during the next six months. However, some evidence of disinclination among the publishers was apparent at the October convention in the withdrawal of one group and the inadequate representation of two others. The Quoin Club of magazine advertising managers decided not to participate because the magazines were officially represented by the Periodical Publishers' Association, which had appointed delegates since the spring meeting. The American Newspaper Publishers' Association (ANPA) and the Farm Press Association were represented by "tentative" committees. In spite of weak support an executive board was elected which was composed of one man from each of the eight participating associations, five of which represented publishers.[1]

Tactics of the western movement.--Instead of seeking the collaboration of prominent publishers' associations, the Chicago

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[1]Scientific Space Selection, pp. 56-63.

group enlisted the aid of individuals, cliques, and factions among the publishers whom they knew to be sympathetic. This tactic enabled the western movement to get under way more quickly because the participants were all fully behind the idea, while the New York group was retarded by trying to work with associations whose members were divided over the issue.

The first organization meeting of the western group in Chicago, September, 1913, was also attended by the publisher of the New York Globe, who, although a member of the ANPA had often criticized its policies in advertising matters. A group of publishers met in December with three leaders of the Chicago movement and decided to join. Three of them were members of a promotional syndicate which had been organized by the publisher of the New York Globe. The director of the Bureau of Advertising of the ANPA was also present. The publishers of several periodicals with offices in Chicago joined the western movement. The publisher of the Boston American was employed on a salary to take charge of a membership campaign primarily directed at publishers. He was assisted in the work of securing memberships and pledges of dues by a committee of publishers, advertisers, and agents.[1] They were particularly successful among farm papers.[2]

Response of publishers' associations to ABC.--After the fusion of the two audit movements which resulted in the founding of the ABC in May, 1914, the question of joining the new organization was a subject of heated discussion at all publishers' conventions. The New York Trade Press Association, composed of twenty-four trade and technical journals, amended their constitution so that submission to a yearly audit by disinterested account-

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[1] Ibid., pp. 59-64.

[2] Advertising and Selling, April, 1914, p. 60.

ants became a condition of membership.[1] A similar motion was introduced at the April meeting of the ANPA but was voted down.[2] At the annual convention of the Associated Advertising Clubs in June the magazine departmental organization adopted a code of practice which contained the statement "We commit ourselves to definite statements and to independent audits showing the quantity and distribution of our circulation."[3] But since there were no sanctions to back up this declaration and the organization itself had little influence over magazine publishers, it was significant merely as an expression of opinion. At the convention of the Federation of Trade Press Associations in October, 1914, the question of requiring members to publish audits of circulations was raised but action was postponed.[4] As late as July, 1915, the Agricultural Publishers' Association was split over the problem.[5]

Response of individual publishers to the ABC.--All publishers in the United States did not of course immediately join the ABC. Out of a total of about 18,000 concerns[6] only 850 had joined by 1915; though among the 2,500 daily newspapers[7] about one-fifth had become members. Although numerically the members of the ABC were a minority of the concerns in their fields, they had vastly greater importance as advertising media.[8] The fact that

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[1] Ibid., p. 6.

[2] Printers' Ink, April 30, 1914, p. 20.

[3] Advertising and Selling, June 30, 1914, p. 73.

[4] Ibid., October, 1914, p. 20.

[5] Printers' Ink, July 1, 1915, p. 56.

[6] R. L. Duffus, "Printing and Publishing," Encyclopaedia of the Social Sciences, XII, 411.

[7] Dexter Merriam Keezer, "Press," ibid., p. 335.

[8] The high degree of concentration in newspaper and periodical publishing is indicated by the fact that in 1929 less than 5 per cent of the establishments produced 70 per cent of the value of the total production. Duffus, p. 411.

thousands of small publishers did not join the ABC was of much less concern to the members than the withdrawal from membership in 1914 of two large publishing houses.

In the winter of 1914-15 these publishers along with several others agreed to accept audits from the ANAM. Although the latter organization of advertising managers had initiated the eastern audit group they gave little support to the movement after the fusion of the eastern and western groups had resulted in the dominance of the Chicago faction. In the fall of 1914 the ANAM decided to conduct their own audits on the grounds that some publications had refused to join the ABC. By the spring of 1915 they had obtained permission to audit eighteen magazines including those of the Curtis, Crowell, and Life Publishing companies. This move had the effect of weakening the audit movement by raising the old problem of lack of comparability in publisher's statements. But the danger was averted when the three publishers mentioned above rejoined the ABC in July, 1915.[1] The Association of National Advertisers then dropped its plan to sponsor separate audits.

Advertiser Participation

The plan of the ABC as a co-operative bureau required the collaboration of buyers and sellers of advertising space. To avoid the weakness inherent in permitting publishers to audit themselves it was organized so that the advertiser members held control of its activities. After the acceptance of the Bureau by all leading publishers as a necessary institution, the problem of sufficient advertiser participation remained to be solved.

At the first convention in May, 1914, national advertisers amounted to twelve per cent of the 595 participants.[2] In spite

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[1] Advertising and Selling, July, 1915, pp. 21, 45.

[2] Scientific Space Selection, p. 70.

of persistent efforts to increase the proportion of advertisers they formed eleven per cent of the total of 1818 members in 1927.[1]

Membership.--Various attempts were made to increase the number of advertiser members. Leaders of the ABC frequently urged advertisers to join the Bureau in speeches before gatherings of advertising men. The dues required of advertisers were frequently changed in an effort to minimize the cost, and adaptations were made in the services to suit the needs of different classes of advertisers. The failure of these changes to increase the membership was due to the fact that advertisers rarely found any need for the audit reports. The work of drawing up a schedule of insertions for an advertising campaign and the choice of publications was largely left up to the agent. If copies of the audit reports were desired they could be obtained from the publisher at no charge.[2]

Attendance at conventions.--The small attendance of advertiser members at the annual conventions presented an even more acute problem. In 1928 only 12 out of 158 came to the meetings, and 8 of them were required to be present because they were members of the board of directors.[3] In the meeting of the advertisers' division it was pointed out that one cause was the competition with the various trade associations such as the ANA and the National Industrial Advertisers' Association.[4] A year later at the 1928 convention, the advertisers' division offered a resolution recommending that the next convention be held at the same time and in the same city with the large trade associations. The

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[1]Audit Bureau of Circulations, Proceedings, 1927, p. 88.

[2]Ibid., pp. 26, 88.

[3]Ibid., 1928, p. 32.

[4]Ibid., 1927, p. 36.

motion was rejected and traditional procedure followed thereafter.[1]

Limited Use of Bureau Data

Another persistent problem of the Audit Bureau was the need for wider and more intensive use of its reports. It was felt that not enough advertisers and agents used the reports and many of those who did use them failed to utilize all the information they contained for a complete evaluation of a given medium.[2] Only about one hundred agents subscribed to the full service in 1929, and in the same year there were from twenty to forty of the hundred and twenty-five members of the American Association of Advertising Agencies who did not belong to the ABC.[3] Publishers frequently complained that agency space buyers failed to read past the first page of the audit report,[4] or that they relied solely on the scant information reprinted by the Standard Rate and Data Service from publishers' statements.[5]

No very satisfactory method was devised for encouraging wider and more thorough use of ABC data. In his annual report to the convention of 1916 the president pointed out the need "to educate the smaller advertisers and agencies as to the force and value constituted in a thorough knowledge of the factors establishing quantity and quality of circulation."[6] The officers of the ABC repeatedly emphasized this need in their speeches before trade associations.[7] There was also talk among members and directors of

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[1] Ibid., 1928, pp. 35, 86, 97.

[2] Ibid., pp. 6-7.

[3] Ibid., 1929, pp. 35-36.

[4] Ibid., 1926, p. 12.

[5] Ibid., 1929, p. 35.

[6] Advertising and Selling, July, 1915, p. 45.

[7] Audit Bureau of Circulations, Proceedings, 1928, p. 33.

setting up a promotional department,[1] but the idea was never acted upon. At a meeting of the agents' division it was suggested that the American Association of Advertising Agencies require all members to join the ABC,[2] but this too was not carried out.

Problem of What to Include in ABC Reports

The forms used in reporting circulation data were constantly revised in order to adjust to changing needs. At every convention changes were discussed and some were usually put into effect. In the middle twenties all of the Bureau's forms were completely revised.[3] They were originally drawn up by a small committee which consulted with representatives from trade associations representing all interests.

The initiative for making subsequent changes in the forms came from publishers as well as from advertisers.[4] The advertisers wanted to add new kinds of information or revise the presentation of materials for easier reference. The publishers very often initiated such changes as would give one type of publication an advantage over the other such as evening over morning dailies[5] or privately owned business journals over association owned ones. The conflict over these changes illustrated the shift from free competition among ingenious individuals to competition restricted by rules established through a political process of regulated struggle and dominance. Three different kinds of problems which were frequently discussed were the scope of the data, analysis of

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[1] Ibid.; also ibid., 1929, p. 35.

[2] Ibid., 1929, p. 35.

[3] Ibid., 1928, pp. 71-72.

[4] Ibid., 1930, p. 82.

[5] Ibid., p. 13.

circulation methods, and the classification of data.

Scope of the data.--Several factors determined the limits to the amount and variety of data collected by the Bureau. One limiting factor was the resistance of publishers. A second was its value to the advertisers and agents. Another was the accessibility of the information. A fourth was the cost of obtaining the data. The basic types of specific information that were required in the original forms were retained through all rearrangements and additions. One minor feature of the first reports which was soon dropped was the space for publishers' remarks on the last page. Here he could give "the purpose of the publication editorially, and the facts tending to establish its quality, character and advertising value."[1] Its inclusion was probably a concession to publishers who needed the comfort of well chosen adjectives; and it was probably dropped because of the cost of printing a page of free advertising which was of insignificant use to the buyer of space.

A move to include the schedule of space rates in the audit report was dropped when newspaper publishers expressed unalterable opposition. The board of directors decided in the summer of 1926 to publish these data in the audit reports and without first seeking an expression of opinion from the members instructed the auditors to obtain the information. Individual publishers protested to the Newspaper Advisory Committee which obtained the consent of the directors to their request that collection of space rates be postponed until after discussion of the subject at the next convention.[2] This incident precipitated a minor rebellion among the newspaper members. Their advisory committee also asked:

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[1] Printers' Ink, December 3, 1914, pp. 43-44.

[2] Audit Bureau of Circulations, Proceedings, 1926, p. 8.

> That in equity, some plan should be worked out to give the newspaper members a more adequate representation on the Board of Directors (still keeping the advertising members in the control), and third, that the policy as to assessing dues be recognized as that of charging the minimum consistent with the fullest needs of the Bureau.[1]

They were successful in obtaining the assurance that the board would never publish advertising rates, and this was given in spite of resolutions from the farm and business paper divisions favoring the publication of rates. A compromise was also reached on the question of enlarging newspaper representation on the board. They asked for six directorships and received four.[2]

Analysis of circulation methods.--Knowledge of the quantity of circulation was not a sufficient guide to advertisers and agents in judging the comparative worth of different publications as advertising media. They wanted to know not only how much circulation a paper had, but also how that circulation was obtained. If the circulation was "forced" by various techniques it was considered of less value than if such devices were not used. It was therefore necessary for the Bureau's releases to include detailed information on the methods of selling publications.

In order to supply this information publishers were required to give the number of copies sold at all different prices. If various inducements were used such as premiums, insurance, prizes, the circulation obtained through these methods was given along with detailed descriptions of these techniques.[3] The total distribution was analyzed by terms and policies of payment. The conditions under which copies were sold to news dealers, particularly allowances for returned copies, were described.[4]

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[1] Ibid.

[2] Ibid., pp. 50-51.

[3] Printers' Ink, October 28, 1915, p. 116.

[4] Scientific Space Selection, Appendix.

Since new methods of circulation promotion were constantly being devised by individual publishers it was frequently necessary for changes to be made in the Bureau's forms. Proposals to make such revisions always met with opposition from some of the publishers. They were opposed not only by those who devised the new technique, but also by others whose interests would be adversely affected. The Bureau's forms presented the buyer with a picture of what the seller had to offer. Since this picture could not be a complete representation of each publication, there was an unavoidable distortion which made some publications appear better and others worse than more thorough analysis might have disclosed. Those who found themselves at a disadvantage proposed changes in the Bureau forms, or modified their business methods. Those who were favored by the existing categories opposed changes. In consequence there was constant struggle between factions of publishers within the ABC over proposals to modify the information required by the Bureau.

Through publicizing circulation methods it was assumed that publishers would be discouraged from "forcing" their circulations. That it failed to accomplish this purpose is evident from the following statement by the president of the American Association of Advertising Agencies in a speech before the ABC convention of 1930.

> Publishers force their circulation. Nobody is content with natural growth. Extravagant sums are spent for readers. Premiums and prizes are offered wholesale. Sometimes one half of a paper's circulation is thus induced. Some expand beyond their natural trading area and load that circulation on the national advertiser. The cost has been too much. I have known publishers to spend ten dollars for five dollar subscriptions, in postage alone. I have known a leading and dominant paper to expand at the rate of $4.50 net loss per reader, in addition to the cost of publication. These are no isolated cases. They are common, the country over.[1]

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[1]Audit Bureau of Circulations, Proceedings, 1930, p. 9.

In concluding his remarks the speaker suggested a new method for discouraging these practices. He proposed that copies sold through the use of premiums, prizes, or contests be excluded from the total of "net paid" circulation on page one of the audit report, but as a concession they could be included in another total labeled simply as "paid" circulation.[1] However, this proposal was never adopted.

The existence of circulation promotional organizations was always a source of irritation to advertisers and agents. As early as 1915 it was charged that "Several circulation-getting bureaus can deliver a 100,000 circulation almost over night. Needless to say, such circulation is worth about 25¢ on the $1."[2] Fourteen years later the problem was still unsolved. In his report to the 1929 convention the ABC president viewed with alarm the "practice of some publishers in accepting subscriptions from wholesale brokers without even a nominal payment from the broker to the publisher. Quite often the publisher . . . . pays the broker a service charge or a retaining fee. . . ."[3]

A new device for inflating the net paid total appeared in 1929 when several daily papers in a large city began to expand their sales of copies in bulk. It had been the practice for some hotels, restaurants, and railroads to buy large numbers of copies for free distribution to their patrons. Such copies were included in the net paid total because no one questioned their advertising value. In 1929 it came to light that in one city several papers were selling large numbers of copies to merchants and theater op-

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[1] Ibid., p. 12.

[2] Advertising and Selling, June, 1915, p. 51.

[3] Audit Bureau of Circulations, Proceedings, 1929, p. 5; cf. ibid., 1930, p. 4.

erators at the bulk rate in return for the printing of an advertisement which was fastened on the front page of the paper.[1] This problem was solved by separating bulk sales from the net paid total and placing them in a separate paragraph on page two; but this change was not accomplished without considerable controversy. The struggle was put up, not by the publishers who thought up the scheme, but by those who prized the increment of net paid circulation obtained by sales to hotels and therefore wished to have it separated from other bulk sales and retained on page one.[2] After the change had been made a move to return "hotel circulation" to page one was initiated by the advertising agent of a national chain of hotels because a St. Louis publisher refused any longer to sell copies of his paper at the bulk rate and asked the regular price.[3]

Classification of data.--In one of its aspects the controversy over bulk sales was a problem of classification. One faction composed of the "higher class" daily papers wanted hotel circulation separated from other bulk sales and classed with net paid circulation. The other faction wanted all bulk sales separated from net paid and analyzed in a separate section of the report. This was important because the net paid figure had become accepted by buyers of space as representing "good" circulation.

Other and more important problems of classification frequently arose. They usually involved two different problems: one was the question of breaking down totals, and second was the question of combining the breakdowns under larger headings. Examples of other problems in classification arose over drawing a distinction between morning and evening papers.[4] Another was the question of separating the official organs of trade associations from inde-

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[1] Ibid., 1929, pp. 7-13. [2] Ibid., pp. 79-83.

[3] Ibid., 1930, p. 40. [4] Ibid., 1927.

pendent business and technical journals.[1] A similar problem was the need for separating the non-city mail circulation of a newspaper into rural and town circulation.[2] In every case these questions raised a great many incidental problems which differentially affected the profits of various sections of the membership. Resolution of these conflicts was facilitated through the instrumentality of the ABC.

Evasion of Accurate Circulation Reports

When the ABC was organized it was assumed that its trained auditors would be able to detect any attempt to conceal or disguise the actual distribution of a publication. Thus the annual audit reports would be as nearly correct as was humanly possible. The publishers' own semi-annual statements would be reliable because any evasion would result in a discrepancy as compared with the annual audit. As the managing director asserted, "Let one of these publishers' statements fail materially of verification by the auditor and the publishers will suffer so in loss of prestige and confidence that all other publications will be mighty careful that their statements are accurate . . . ."[3] However, it soon developed that this was not an adequate sanction for accuracy in the publishers' statements. Since the majority of advertisers and agents never examined the audit reports and used only the publishers' statements or data in Standard Rate and Data Service, a great many publishers habitually padded their net paid circulation by making numerous "errors" in the various components of this total.

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[1] Ibid., 1929, pp. 49-50.

[2] Ibid., pp. 31-32.

[3] Printers' Ink, December 3, 1914, p. 43.

Sanctions.--To discourage publishers from deliberately inflating their statements a variety of sanctions were proposed or tried out, but none of them were found completely effective. At the convention of 1916 the newspaper members passed a resolution asking the board to establish a rule giving itself power to "suspend or expel a member found deliberately making false statements as to circulation facts."[1] This rule could not be enforced except in unusually flagrant cases. There were various reasons for this. One was the difficulty of proving that the error was deliberate. Another was the impossibility of determining the size of error that would be considered a violation. Even more basic was the reluctance of advertisers who needed circulation data to cut off a source of necessary information.[2]

Other less drastic sanctions were tried but found wanting. Discrepancies with the publishers' statements were pointed out in audit reports.[3] Bulletins were sent to all members indicating corrections in the statements, but this did not block the tendency because, in the opinion of one member, "nobody pays any attention to them."[4] In order to bring discrepancies to the attention of those who saw only the publishers' statements it was suggested that any difference found in the audit report be clearly indicated on the succeeding semi-annual statement.[5] To make its purpose clear, one member jokingly asked, "Why not print his statement on striped paper to indicate he ought to be in jail? (Laughter)"[6]

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[1] Associated Advertising, July, 1916, p. 68.

[2] Audit Bureau of Circulations, Proceedings, 1930, p. 36.

[3] Ibid., p. 34.

[4] Ibid., p. 50.

[5] Ibid., p. 36.

[6] Ibid., p. 35.

On the theory that "It is always better to pin medals on them than to put them in jail,"[1] it was suggested that "a star or two stars or something"[2] be awarded to publishers whose statements were verified by the audit report. Despite the recommendation of the agents' division, the board did not adopt any such device for calling attention to discrepancies between the publisher's statement and the audit report.

Investigations.--A more serious problem than that of deliberate inflation of the net paid total in the publisher's statement was the practice of disguising or concealing accurate circulation data from the auditors of the Bureau. This offense was punishable by censure, suspension, or expulsion by the board,[3] but the latter two sanctions were rarely invoked. In 1928 when the problem became very acute three newspapers were suspended. The seriousness of the situation was expressed by the president in his annual report.

> The past year your Board of Directors, sitting as a court, has spent days listening to the recital of amazing evidence of deliberate and successful efforts to misrepresent newspaper circulation figures. It has suspended from membership three dailies--two of them newspapers of outstanding influence and a hitherto honorable name. Similar charges are now before your Board with respect to other properties. Is it not time for the members of this Bureau to call a halt on crooked circulation practices?[4]

Although investigations were generally successful in rectifying the error in an audit report, they raised secondary problems. Since special investigations required a great deal of time they took the auditors away from their regular work and delayed

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[1] Ibid., p. 36.

[2] Ibid.

[3] Audit Bureau of Circulations, ByLaws and Rules (Chicago, 1941), p. 9.

[4] Audit Bureau of Circulations, Proceedings, 1928, pp.20-21.

completion of all annual audits. In 1927 an investigation in Louisville required the work of one to six auditors for seven months and one in Kansas City required forty-four weeks.[1] Another obstacle was the assessment of the cost of a special investigation. The board followed the policy of dividing the cost equally among all competing papers in the city. The parties involved were seldom satisfied.

> Protests against bills to cover these excess costs are made on various grounds: First, that no one asked for any investigation; second, that no investigation was necessary; third, it may have been necessary, but it was the other paper which caused the trouble, let it pay the whole bill; fourth, the investigation did not bring out the real facts; fifth, the paper which tipped the Bureau off as to bad conditions has done the organization a service and should not be penalized by being billed for a share of the cost.[2]

Use of ABC Data in Publisher's Own Advertising

One section of the Bureau rules governed the ways in which data from ABC releases could be used by publishers in advertising to buyers of space. This was another way in which competition between entrepreneurs in the advertising industry was restricted. These regulations were originally formulated when the Bureau was organized to allay the apprehensions of publishers over the possible effects of permitting competitors to use information which had previously been highly confidential.[3] The rules provided first, that nothing from ABC releases could be used in advertisements except what was expressly permitted in the rules; second, data on a competitor's circulation could not be published; third, only the basic data on the first page of the audit report could be published unless the entire report was reproduced.[4] In adopting these rules the ABC "took upon itself the duty of guiding the

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[1] Ibid., 1927, p. 89.

[2] Ibid., 1928, pp. 22-23.

[3] Ibid., 1929, p. 6.

[4] Ibid., p. 86.

ethics of publication advertising, as well as its primary function of auditing circulation."[1]

The members were not always satisfied with this arrangement. Criticism and suggestions for changes were brought up at almost every convention.[2] The rules did not always accomplish their intended purpose. In instances of close rivalry a publisher who increased his circulation through free insurance or premiums could advertise a larger net paid total circulation than a rival who did not use these techniques, and the rival was prohibited by the Bureau's rules from describing the cause in his advertising.[3] The rule against publishing ABC data on a competitor's circulation was easily evaded by making a very slight change in the totals.[4] Sanctions applied against violators of the rules did not deter subsequent violations.[5] According to the rules a bulletin describing the offense was sent to all members after the rule had been violated a second time. However, if the offense were serious the managing director could immediately cite the publisher to appear before the board for violation of the rules. In practice, however, the offending member was notified of his offense and requested not to repeat it. A bulletin was actually never issued until after at least three violations had occurred.[6] Proposals for additional sanctions which were not adopted included the oral reading of a list of violators at the ABC conventions and the imposition of fines to be increased with each additional offense.[7]

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[1] Ibid., 1929, p. 22.

[2] Ibid., pp. 76, 85.

[3] Ibid., p. 86.

[4] Ibid., p. 21.

[5] Ibid., 1927, p. 40; ibid., 1928, pp. 16-17.

[6] Ibid.

[7] Ibid., p. 17.

CHAPTER XV

THE DEVELOPMENT OF VOLUNTARY CONTROL

Specific Conclusions: Voluntary Control in the Advertising Industry

The history of the advertising industry reveals a change from an earlier condition in which the relations of the participants were freely competitive to a later situation in which competition was restricted by voluntary controls. This change arose out of attempts to solve specific problems that appeared when the contingencies of business success were threatened. Successful collective action was achieved only after a prolonged development in which the participants attained a necessary degree of solidarity and in which effective institutions were established.

Advertising changed from a simple trade to a complex industry. The invention of mass production in manufacturing required new techniques for mass distribution and national advertising was one of the devices used to fill this need. Specialists in the application of these devices were the advertising men who became a semi-professional group which established its mandate to a special type of occupation. They formed a new estate, distinct from both the business men who advertised and from the publishers who printed the advertisements.

The participants in the industry--publishers, advertisers, and agents--became a social group with the essential characteristics of a society. The advertising industry acquired a constellation of institutions, leadership through a hierarchy of offices, a solidarity based on common values and sentiments, and established

usages backed by sanctions. The participants came to act collectively in meeting some of the contingencies of business success. The institutional complex through which collective action was accomplished rested on devices of voluntary control which limited the free employment of individual resourcesfulness.

Comparison of Earlier and Later Phases of the Industry

The differences between the earlier and later phases of the industry that emerged from this gradual process of historical change can be emphasized by making certain contrasts. There was change in the types of action exhibited by participants, in the formal structure of the industry, and in the relationships between participants.

Change in types of action.--The conduct of participants was originally wholly in the form of individual enterprise. Later this type of action was supplemented by collective effort. In the earlier period the participants, while influenced by the customs and laws of the larger society, lacked special rules and norms of their own. Actions were guided solely by consideration of competitive advantage. Later a body of trade practices became established through group action in trade organizations. An example of this change is in the methods used by agents to increase their profits. During the seventies one agent gained a competitive advantage by purchasing large quantities of space at a discount and retailing it to advertisers. During the first World War when agents' costs increased and profits declined, a number of agents formed an association which succeeded in obtaining an increase in the agent's commission from publishers.

Change in formal structure.--Originally the only formal groups were the separate business concerns of publishers, agents,

and manufacturers or distributors. Later these independent enterprises were overlaid with a complex institutional structure of trade organizations. There were the inclusive advertising clubs which dealt with general problems of common interest to all participants, the different trade associations of special interest groups within the industry, and the trade bureaus which controlled transactions between advertisers and publishers as mediated by agents.

Changes in relationships.--Changes in the relations among the participants in the industry occurred in two different directions. First, there were changes in the transactions between different kinds of enterprises, as between publishers and agents, and agents and advertisers. Second, the contacts among similar concerns, who were rivals in the sale or use of advertising, were modified, as in the relations among publishers as a group, agents as another group, and advertisers among themselves.

In the earlier period transactions were concluded through bargaining between the two parties involved. There were only very rough standards of value in space for advertising purposes and, as a consequence, prices were unstable rather than fixed. Agents sought space from publishers for as little as possible and sold it to advertisers for as much as they could get. Various tactics were used by the participants for the purpose of gaining an advantage in the bargaining process. The negotiation of exchanges through bargaining was a form of conflict that was mitigated by the need of both parties for perpetuating the relationship.

In recent times overt bargaining largely disappeared and prices became public and uniform. Prices of space in all important national media were nominally fixed with departures taking the form of concessions or special services. The cost of the

agent's services to the advertiser were also formally determined as a fixed percentage of the total cost of space used in the campaign. However, the transaction between agent and advertiser was subject to non-price bargaining through variations in services and by secret rebates. In general the later period was characterized by formally fixed prices for space and agency services, combined with occasional disguised bargaining. There were rules and trade practices enforced by sanctions, but from which there was some degree of departure.

Summary.--The early period can be typified as one in which changes in business conduct were the effect of resourcefulness initiated by individual participants who competed with their rivals in negotiating transactions through bargaining. In the later period individual ingenuity was supplemented by collective action through an institutional complex by means of which exchanges were restricted by rules set up by the members of trade associations.

Origin of Collective Action

Collective action in the advertising industry originated in specific critical junctures in which individual attempts at solution were no longer satisfactory. In terms of the conceptual scheme here used, the contingencies of business success were threatened in ways which could not be met by individual enterprise, but could be obviated through collective action.

Many of the problems which appeared in the advertising industry were satisfactorily solved through the application of individual resourcefulness. Innovations were made by inventive persons who were able to command sufficient capital. Others either copied their methods or lost out in the competitive race. However, there was a limit to the variety of exploitive devices by means of which profits could be increased or maintained.

Problems began to appear which could not be solved by individuals acting alone. The need for comparable circulation data, for example, was not adequately met by individual efforts. When such problems appeared dissatisfaction became widespread and was frequently expressed.

The problems of the advertising industry originated in two different ways. Some appeared because traditional business methods ceased to be profitable. Others were the result of a higher level of aspiration which required larger incomes than existing business practices afforded. In either case the methods available to individuals were inadequate for the attainment of desired goals.

Stages in Collective Action

In the advertising industry the existence of a problem did not result in its immediate solution. Instead it was found that a slow process of development intervened between its origin and eventual successful solution. Members of the industry had long complained of a lack of respect for advertising men, unstable space rates, rebating by agents, and a lack of public confidence in advertising. Beginning in the eighteen seventies sporadic attempts were made to solve one or more of these problems through collective action. But it was not until after 1910 that efforts of this sort were fruitful.

Dissatisfaction.--This slow process of development out of which satisfactory solutions emerged passed through a series of phases. Each problem originated in the experience of individual participants. After a problem became widespread the first step toward collective action occurred when dissatisfaction was communicated among the participants. At first contacts were on an informal basis of local acquaintanceship or incidental to business

dealings. Communication was facilitated during the nineties by the publication of trade journals which aired the opinions of advertising men. Trade organizations which dealt with advertising problems were formed around the turn of the century. Both of these formal means of communication became increasingly numerous and effective in facilitating the expression of attitudes by participants of the industry.

Out of the interchange of opinions emerged a consensus among some of the discussants on the nature of the problems and the methods for dealing with them.

Mobilization.--The second stage arrived when a group of participants met together for the purpose of carrying out a proposed plan of action. Their principal task was to mobilize a body of adherents necessary for carrying out their plan. Their aim was always to enlist both the few powerful individuals and a sufficient following of successful, though less important, participants.

Complementary to the recruitment of a following was the need for neutralizing any opposition which threatened the incipient movement. Sometimes this was accomplished by coercion in the form of a boycott. This was the technique which the agents' associations used against publishers who allowed a discount to advertisers. In other instances the acquiescence, if not the support, of the opposition was obtained by appeasing them through concessions. The American Association of Advertising Agencies projected a plan for facilitating the use of newspapers by national advertisers in an effort to induce the publishers of dailies to grant a 15 per cent commission.

Establishment.--The process of emerging collective action was completed with the establishment of a new business usage. In

most cases administrative and regulative devices were necessary to maintain and diffuse the new usage. Sometimes new institutions were created for this special purpose, as in the case of the Audit Bureau of Circulations. In other instances institutional devices such as special staffs, functionaries, or committees, were set up within existing organizations to carry out the new function. The recognition system established within publishers' associations were of this type. Sometimes collective action was taken by a temporary group charged with a specific task such as the Committee on the Advertising of Advertising set up by the Associated Advertising Clubs.

These three phases in the development of a solution through collective action were not clearly separate from one another.[1] Each one merged gradually into the succeeding one, and earlier developments were speeded up after the emergence of later phases. The Audit Bureau of Circulations had its greatest growth in membership after it had established the necessary institutional devices for carrying out its purposes. The originally vague purposes of the Associated Advertising Clubs were more clearly defined after it had succeeded in mobilizing a membership for effective collective action. Although these stages of development overlapped they invariably appeared in the same sequence of discussion, mobilization, and establishment.

Natural History of the Advertising Industry

The solution of separate problems through collective action had a cumulative effect in the history of the advertising

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[1]The number of stages is not basic. A larger number could have been discerned in the development of solutions to specific problems and in the natural history of the industry. The significant point is that there was a gradual, cumulative process of development; and this ought not to be obscured by the hueristic device of defining several stages.

industry which can be thought of as a life cycle or natural history. After advertising clubs, which were merely discussion groups, had appeared around 1900, the basis was laid for the founding of the more complex and specialized trade organizations that appeared between 1910 and 1917. As each succeeding problem appeared, the existing institutions were refined, or new ones set up. Thus, whenever a complex problem was successfully solved a residue remained in the form of a new or improved implement for collective action. As a result the advertising industry became increasingly complex through the development of a formal structure composed of various types of groups within which all sorts of specialized institutional devices operated for the voluntary control of the contingencies of business success.

Since the advertising industry was examined only during the developmental phase of its history, these conclusions do not encompass a complete life cycle which would include an account of disorganization and eventual disappearance. The development of the advertising industry is here divided into four successive phases characterized by changes in the contingencies of business success and corresponding changes in business conduct. They are emergence, free competition, crisis, and voluntary control.

Emergence.--The advertising industry emerged when entrepreneurs found profit through applying and facilitating the use of advertising in a national market. Manufacturers began to buy space to advertise their products over a broad area. Publishers stimulated the sale of space for this purpose. Agents found profit as middlemen in the buying and selling of space. This period began in the large eastern cities during the 1840's and persisted until around 1870.

Free competition.--During the succeeding twenty years from

1870 to 1890 the participants freely competed with one another unrestrained by any form of voluntary regulation. The numbers of entrepreneurs increased among publishers, advertisers, and agents. Additional sources of profit were exploited through the application of inventive skills and the application of additional capital. The sole contingency of success in the industry was profitable operation. Obstacles to this goal were met by individual resourcefulness.

Crisis.--From 1890 to about 1910 the advertising business passed through a critical period in which problems in the relations among the participants became acute because they could not be satisfactorily controlled through individual effort. There was also a decline in the opportunities for gaining a competitive advantage through the application of inventiveness and the investment of increased capital. There were many attempts at collective action, but with one or two exceptions these efforts were disappointing. Few of the organizations that were formed in this period became permanently established in the industry.

Voluntary control.--After 1910 voluntary controls were increasingly established through collective action. Threats to business success were met through group effort and resulted in the establishment of a complex of institutions. The industry acquired the essential characteristics of a society. Regulations enforced by sanctions transformed free competition into "fair" competition. A successful career became contingent on recognition through accession to offices. The conduct of participants was disciplined by the need for recognition from their peers which was formally expressed through election to offices.

General Conclusions: Voluntary Control in Competitive Industries

The question originally proposed for investigation was: Under what conditions is competition through individual enterprise supplemented by voluntary control through collective action? On the basis of data from the advertising industry it is concluded that: Competitors act collectively when contingencies of business success can no longer be satisfactorily controlled through individual enterprise. This hypothesis can be applied to business conduct when a specific problem arises and to the development of voluntary control within a whole industry.

Specific Business Problem

The application of this hypothesis to specific business problems in a competitive industry can be stated in terms of changes in the relations between the participants. When separate entrepreneurs are faced with a similar obstacle to business success and are also able to communicate their dissatisfactions through trade journals, informal contacts, and trade organizations, the problem becomes common to a group of participants. As a result of discussion the divergent definitions of the problem may be resolved through consensus on a general plan of action. The leaders of the movement then mobilize a body of participants sufficient in numbers and influence to establish the needed control over the conduct of all participants. If there is an opposing faction which threatens to block these plans it is immobilized through persuasion, coercion, or appeasement. If the new trade practice can be established through simple agreement the temporary group will be dissolved. If the problem is persistent and requires rules and sanctions to maintain the new trade practice, a permanent organization is established with the necessary institutional

devices for controlling the relations of the participants.

This sequential pattern in the development of voluntary control is not necessarily carried to completion in every problematic situation. It may break down at any point and competition be resumed through individual enterprise.

History of an Industry

When applied to the developmental phase in the history of a competitive industry this hypothesis can be stated in terms of a change from a freely competitive period to one in which voluntary controls are effectively applied. Between these two periods is an interval of chronic crisis in which specific business problems undergo solution.

An industry or trade originates when resourceful individuals find an opportunity for profit through providing a product or service needed by others. If the number of entrepreneurs increases at a greater rate than the demand for their goods, competition is intensified and profits decline. To maintain their businesses and to increase incomes the participants use individual ingenuity to discover new sources of profit. Or, if this new trade or business gains widespread acceptance and its technical value becomes generally acknowledged, its participants strive for a higher status as measured by increased income and prestige.

When the avenues to success through individual enterprise become more difficult and uncertain, common problems arise which bring the industry into a critical period. If the participants find satisfactory solutions to these problems through collective action the industry acquires an increasingly complex formal organization for voluntarily controlling the contingencies of business success. Trade rules are enforced by group sanctions.

With the establishment of this elaborate formal structure

the avenues for achievement are greatly extended. The recognition of one's peers through accession to offices becomes essential for a successful business career. The body of trade rules established by collective action are strengthened by discipline which is a consequence of striving for recognition, prestige, and influence among one's fellows.

These conclusions are in close agreement with the proposition put forward by Park and Burgess who state that

> Competition among men . . . . has been very largely converted into rivalry and conflict. The effect of conflict has been to extend progressively the area of control and to modify and limit the struggle for existence within these areas. . . . . Competition has been restricted by custom, tradition, and law, and the struggle for existence has assumed the form of struggle for a livelihood and for status.[1]

It also supports the contention put forward in a report of the National Resources Committee that industry is subject to

> . . . . four major organizing influences. First, there is the market mechanism--the interaction of individuals or groups buying and selling in the market. A second major organizing influence takes the form of administrative coordination, as the activities of individuals in a factory . . . . are directed and interrelated by a common authority. A third influence is the canalizing action of laws, rules, and customs . . . . without the exercise of direct administrative control. Finally there is the organizing influence arising from the acceptance of common goals . . . .[2]

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[1] Robert E. Park and Ernest W. Burgess, Introduction to the Science of Sociology (Chicago: University of Chicago Press, 1924), p. 512.

[2] The Structure of the American Economy, Part I, Basic Characteristics (Washington: Government Printing Office, 1939), p. 97.